

**PAID-UP  
Oil and Gas Lease**

THIS AGREEMENT, is made the 30<sup>th</sup> day of July, 2008, but shall be effective the 30<sup>th</sup> day of July, 2008  
(herein called "term date") between William H. Owen  
898 N. Ringe Wood Ave Ormond Beach FL 32174  
hereinafter called Lessor, (whether one or more) and Lenape Resources, Inc. with offices at 9489 Alexander Road, Alexander, NY 14005,  
hereinafter called Lessee.

**WITNESSETH**

1. Lessor in consideration of the sum of One Dollar (\$1.00), the receipt of which is hereby acknowledged, and of the royalties herein provided and of the agreements of Lessee herein contained, hereby grants, leases and lets exclusively unto Lessee for the purpose of exploring, drilling, and operating for and producing oil, casing head gas, liquid hydrocarbons, all gases, and the respective constituents thereof, injecting gas, waters, other fluids and air into subsurface strata, injecting, storing, and withdrawing stored gas regardless of source, laying pipelines, storing oil, building roads, tanks, power stations, telephone lines and other structures and things thereon as necessary, useful, or convenient to produce, save, take care of, treat, process, store and transport said oil, liquid hydrocarbons, all gases and other products manufactured therefrom, the following described land or Leasehold in the Town of Sterling, in the County of Cayuga, State of New York

Tax Map Number (Great Lot)	Permanent Tax I.D. Number	Acreage
<u>18-00-1-7</u> <u>Adm-1224 pg 55</u>	<u>18-00-1-7</u>	<u>2.30</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____

It being the purpose and intent of Lessor to lease, and Lessor does hereby lease all strips or parcels of land owned by Lessor which adjoin the lands above described. For all purposes of this lease, the premises or Leasehold shall be deemed to contain 2.30 acres, whether more or less.

2. (A) LEASE TERM. This lease shall remain in force for a Primary Term of FIVE (5) years from 12:00 A.M. July 30<sup>th</sup> 2008 (effective date) to 11:59 P.M. July 30<sup>th</sup> 2013 (last day of Primary Term) and shall continue beyond the Primary Term as to the entirety of the Leasehold for as long thereafter as oil or gas is produced, or considered produced under the terms of this lease, in paying quantities from the premises or from lands pooled therewith, or the premises are used for gas storage purposes as provided in paragraph 7 hereof, or this lease is maintained in force under any subsequent provisions hereof. (B) EXTENSION OF PRIMARY TERM. Lessee has the option to extend the Primary Term of this Lease for one additional term of FIVE (5) years from the expiration of the Primary Term hereof ("Extended Term"); said Extended Term to be under the same terms and conditions as contained in this Lease. Lessee may exercise this option to extend this Lease if on or prior to the expiration date of the Primary Term of this Lease, Lessee pays or tenders to Lessor or to the credit of Lessor an amount equal the initial consideration given for the execution hereof and thereafter continues to pay rentals in accordance with the provisions of paragraph 5 herein below for the balance of the Extended Term.

3. Lessee shall deliver to the credit of Lessor, free of cost, in the pipeline to which Lessee may connect his wells the equal one-eighth (1/8th) part of all oil or liquid hydrocarbons produced and saved from the premises, and shall pay the Lessor on gas, including casinghead gas and other gaseous substances, produced from the premises and used off the premises or in the manufacture of gasoline or other products therefrom, the general wholesale market price at the well of one-eighth (1/8th) of the gas so used; provided that on gas sold, the royalty shall be one-eighth (1/8th) of the amount realized from the sale of such gas at the well, subject to reduction for costs associated with marketing and transportation; and provided that in no event shall the gas royalty payable hereunder be computed on the basis of a price the collection of which by Lessee is unlawful or prohibited by order or regulation of any governmental authority having jurisdiction, and market price at the well shall not exceed the amount realized by Lessee for such gas computed at the well. Payment for royalties in accordance herewith shall constitute full compensation for the gas and all of its components. No royalty shall be due on stored gas produced from the premises or on gas produced from a storage formation or formations thereunder.

4. If at any time either during or after the Primary or Extended Term hereof there is a well capable of producing gas (with or without condensate) in paying quantities (other than stored gas) located upon the premises or on lands pooled therewith but such well is shut-in (whether before or after production) and this lease is not maintained in force by operations or production at any well, by gas storage, or by other activity or event, nevertheless it shall be considered that gas is being produced in paying quantities within the meaning of this lease. On or before the end of the initial year during which this lease is maintained in force for the entire annual period under this paragraph 4, Lessee shall pay or tender to Lessor hereunder, or to those entitled to the royalties provided in this lease (as shown by Lessee's records) at the addresses shown by Lessee's records, a shut-in royalty equal to \$1.00 per acre for the acreage held under this lease (as shown by Lessee's records) at the time such payment or tender is made. Each subsequent payment or tender shall be made thereafter in like manner and amount on or before the end of each annual period while the lease was maintained in force for the entire annual period under the first sentence of this paragraph 4. Lessee's failure to timely or correctly pay or tender the shut-in royalty for any year shall not operate to terminate this lease or serve as a basis for its cancellation, but Lessee shall correct any erroneous payment or tender, when notified thereof, and if late then Lessee shall make the correcting payment or tender with interest at the rate of eight (8%) percent per annum to those to whom such shut-in royalty was not timely or correctly paid or tendered. As long as any well is shut-in, it shall be considered for the purposes of maintaining this lease in force that gas is being produced in paying quantities and this lease shall continue in effect both before and after the Primary or Extended Term.

5. Lessee agrees to pay a rental at the rate of One Dollar (\$5.00) per acre per annum, payable annually, or quarterly beginning one year from the term date, until a producing well yielding royalty or shut-in royalty to the Lessor is drilled on the premises or lands pooled therewith, or utilization of underground formation(s) for storage is commenced pursuant to the provisions of paragraph 7 below, or until a surrender of this lease has been filed in the proper county by Lessee, whichever is the earlier event, provided that in no event shall such annual rental be due or payable at or after the expiration of the primary term hereof, after production of oil and/or gas in paying quantities has commenced from a well or wells on the premises or on lands pooled therewith, such well(s) are abandoned and all production therefrom should cease more than one (1) year prior to the end of the primary term, Lessee shall resume the payment of annual rentals on the next ensuing rental anniversary date subject to the earlier provisions of this paragraph. **PAID-UP LEASE Notwithstanding the foregoing to the contrary, the parties hereto agree that this is a Paid-Up Lease with no further Delay Rental payments due to Lessor during the primary term hereof.**

6. Lessee is granted the right and option at any time or times while this lease is in force to pool or combine as it sees fit all or any part or parts of the premises, or formation, depth or depths thereunder, with any other land, lease, leases, parts thereof, or formation, depth, or depths thereunder, in the vicinity of the premises covered hereby, into one or more units for the production of oil and/or gas through vertical, horizontal, or slant hole well completions, primary or secondary recovery methods, (including by water flooding, gas injections, or injections of other substances) or combinations of any recovery techniques. No unit may exceed 640 acres in size unless prescribed or permitted by applicable law or administrative order, rule or regulation. The effective time of forming a unit, shall be when Lessee files a written designation of record in the county or counties in which the pooled or combined premises are located. Each unit formed hereunder may be reduced or enlarged in size at anytime, before or after the completion of any well or the commencement of production, by not more than fifteen (15%) percent, when in Lessee's judgment it is necessary or advisable to do

so in order properly to explore or develop and operate the premises, in order to promote the conservation of oil or gas in Lessee's judgment, in order to include an omitted lease or area within a unit, in order to comply with well location or distance rules or regulations, and/or in order to make adjustments to the acreage (after adequate showings) in tracts included within a unit area, but each such reduction or enlargement shall only be effective prospectively. Operations or production on any part of any unit formed, reduced, or enlarged hereunder shall be treated as if the operations were upon or the production was from the premises covered hereby, whether the well or wells are located on the premises or not. The entire acreage pooled into a unit shall be treated for all purposes except for the computation and payment of royalties on production from the unit, as if it were included in this lease. In lieu of the royalties on production elsewhere provided in this lease, Lessor shall receive on production from each pooled or combined unit only such portion of the royalty stipulated in this lease as the amount on an acreage basis, that each owner's interest in the acreage placed in the unit bears to the interests in all the acreage pooled or combined into a unit.

7. Lessee is hereby granted the right to use any formation(s) underlying the premises for the injection and/or storage therein of any quantity of gas regardless of its source, and for the withdrawal of stored gas therefrom, and shall have all rights, rights of way, and privileges necessary, useful, or convenient for such purposes, including but not limited to the right to drill or convert any well or wells on the premises for use as storage wells. Injection of gas for underground storage, and withdrawal thereof, may be performed by storage well or wells located on other lands or leases in the vicinity of the premises. Lessee's good faith determination of when or whether the premises are being used for gas storage purposes shall be conclusive. Lessee shall give Lessor written notice of the use of the premises for gas storage purposes and shall calculate and pay Lessor for Lessor's royalty ownership in all remaining non-produced economically recoverable gas reserves in the formation(s) to be utilized for storage purposes, using methods of calculating such reserves as are generally accepted in the natural gas industry. Lessor shall be entitled to the same royalty on such recoverable reserves as though the gas were produced and sold or used off the premises. In addition, Lessee shall pay Lessor a storage rental at the rate of Two Dollars (\$2.00) per acre per year, payable annually while the premises are used for storage purposes beginning ninety (90) days after written notice of such use is given Lessor in accordance with the foregoing provisions.

8. If Lessor owns a lesser interest in the oil and gas in and under the premises than the entire undivided interest therein, then the royalties and other payments herein provided shall be paid the Lessor only in the proportion which its interest bears to the whole and undivided interest therein.

9. No well may be drilled nearer than 200 feet to any dwelling house now on said premises without the written consent of Lessor. Lessee shall have the right to use free of cost, gas, oil and water produced from the premises for its operations thereon, except water from wells of Lessor. Lessee shall also have the right at any time to remove all or any part of the machinery, fixtures, or structures placed on said premises, including the right to draw and remove casing. Lessee shall pay for damages caused by its operations to growing crops, trees, and fences located on the premises.

10. Lessor may, at Lessor's sole risk and cost, lay a pipeline to any one gas well on the premises, and take gas produced from said well for domestic use in one dwelling house on the leased premises, at Lessor's own risk, subject to the use and the right of abandonment of the well by the Lessee. The first two hundred thousand (200,000) cubic feet of gas taken each year shall be free of cost, but all gas in excess of two hundred thousand (200,000) cubic feet of gas taken in each year shall be paid for by Lessor at the price at which royalties are calculated. It is specifically provided, however, that no more than thirty thousand (30,000) cubic feet shall be used in any month. Lessor is to lay and maintain the pipeline and furnish regulators, meters and other equipment deemed necessary by Lessee at Lessor's expense. This privilege is upon the condition precedent that the Lessor shall subscribe to and be bound by the reasonable rules and regulations of the Lessee relating to the use of free gas, and Lessor shall maintain said pipeline, regulators, meters and equipment in good repair and free of all gas leaks and operate the same as not to cause waste or unnecessary leaks of gas. If the Lessor shall take excess gas as aforesaid in any year and fail to pay for the same, the Lessee may deduct payment for such excess gas from any rentals or royalties accruing to the Lessor hereunder. Lessor acknowledges that he has been advised as to the risks inherent in the taking of gas in this manner, and Lessor agrees to assume all such risks whether same be caused by Lessor's lines or equipment, or whether same be caused by Lessee's equipment or well operation; and Lessor agrees to indemnify and hold Lessee and the well operator and all parties in interest in any well on the leasehold premises harmless from any claims of any nature whatsoever which may arise by the usage of gas from any such well by Lessor, his heirs, executors, administrators and assigns. Lessor further agrees that upon the sale or transfer of the leasehold premises wherein someone other than the Lessor is entitled to take the gas under this Paragraph 10, that the gas supply will be terminated by the Lessee until the buyer of the property executes an agreement regarding the usage of the gas in the same form as the within agreement. In the absence of such an agreement, free gas under this provision shall terminate, the within right of free gas not being assignable without the consent of the Lessee. In the event the leased premises or any part is pooled or consolidated hereunder with any other land (not withstanding anything to the contrary herein). Then only the gas owner who owns the surface of the lands on which a producing gas well is located may take gas in accordance with the foregoing.

11. The rights of either party hereunder may be assigned in whole or in part and the provisions hereof shall extend to the heirs, executors, administrators, successors, and assigns, but no change of division in ownership of the premises or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee. No such change or division in the ownership of the premises or royalties shall be binding upon Lessee for any purpose until thirty (30) days after the person acquiring any interest has furnished Lessee with the instrument or instruments, or certified copies thereof, constituting his chain of title from the original Lessor. In case of assignment of the lease as to any part or parts (whether divided or undivided) of the premises, all monies payable hereunder shall be apportionable as between the several leasehold owners ratably according to the surface area (using the acreage content set forth in good faith in such assignment) or undivided interest of each and default in payment by one shall not affect the rights of other leasehold owners hereunder. No owner of an interest in this lease in whole or in part shall be liable for the failure of any prior, subsequent or concurrent owner to perform the terms, conditions, and obligations of this lease, express or implied.

12. The Lessee, its successors or assigns, shall have the right to surrender this lease or any part hereof for cancellation after which all payments and liabilities hereunder shall cease and terminate as to the part surrendered and if the whole is surrendered then this lease shall become absolutely null and void. Any payments herein set forth shall be reduced in proportion to the acreage surrendered. Notwithstanding the foregoing, upon termination of this lease, or surrender any portion thereof, Lessee shall have the right to use, free of charge, any then existing pipelines, pole lines, roadways, and other facilities across the land with respect to which the lease is terminated or surrendered, for the purpose of continuing operations on the remaining portion of this lease, or any other lands.

13. Lessor hereby warrants and agrees to defend the title to the premises against all persons whomsoever and agrees that the Lessee at its option may pay, discharge, or redeem any taxes, mortgages, or other liens existing, levied or assessed on or against the premises, and in the event it exercises such option, it shall be subrogated to the rights of any holder or holders thereof and may reimburse itself by applying any royalty accruing hereunder to the discharge of any such taxes, mortgages, or other liens. In case of any controversy or dispute regarding title to the premises or any part thereof, or regarding the ownership of any sums payable hereunder, Lessee shall have the right to withhold and retain without accrual or interest all sums payable hereunder which are subject to such controversy or dispute until the final determination of said controversy or dispute and then to distribute the same among those lawfully entitled thereto.

14. If during the last ninety (90) days of the Primary or Extended Term hereof or at any time after the expiration of the Primary or Extended Term, production of oil and gas in paying quantities from the premises, or lands pooled therewith, should cease for any reason, or if during or after such ninety (90) day period and prior to discovery of oil or gas on the premises or lands pooled therewith, Lessee should complete a dry hole thereon, this lease shall not terminate if Lessee commences or resumes additional operations on the premises or lands pooled therewith, within ninety (90) days after production ceased or the well was completed as a dry hole, whichever is applicable. If, at the expiration of the Primary or Extended Term, oil or gas is not being produced in paying quantities from the premises, or lands pooled therewith, but Lessee is then engaged in operations thereon, this lease shall remain in force so long as operations are prosecuted (whether on the same or different wells) with no cessation of more than ninety (90) consecutive days, and if they result in production, so long thereafter as oil or gas is produced in paying quantities from the premises or lands pooled therewith. The term "operations" as used in this lease shall include but not be limited to the drilling, testing, completing, (including by horizontal and slant hole well completion techniques) reworking, recompletion, deepening, plugging back, or repairing of a well (and all work preparatory, incident or related to any such operation) in search for or in an endeavor to obtain, restore, maintain, or to increase production of oil, liquid hydrocarbons, or gas, or any of them.

15. All expressed or implied covenants of this lease shall be subject to all Federal and State laws, executive orders, rules and regulations and this

BK1378 PG028

lease shall not be terminated in whole or in part, nor Lessee held liable for damages, for failure to comply herewith if compliance is prevented by, or if such failure is a result of, any such law, order, rule or regulation, or if prevented by an act of God, the public enemy, labor disputes, inability to obtain materials, failure of transportation or other cause beyond the control of Lessee.

16. This lease embodies the entire agreement between the parties and no representation or promise on behalf of either party shall be binding unless contained herein or mutually agreed to in writing by all parties hereto. This agreement shall be binding upon each Lessor who shall execute the same and upon Lessee from and after the date of delivery to Lessee or its representative by the executing Lessor.

17. All monies coming due hereunder shall be paid or tendered to Lessor at the address set forth in the first paragraph of this lease and no default shall be declared against the Lessee by Lessor for failure of the Lessee to make any payments that may become due and payable hereunder unless the Lessee shall refuse or neglect to pay the same for sixty (60) days after having received written notice by registered mail from the Lessor of his intention to declare such default.

18. If during anytime while this lease is in force and effect Lessor receives a bona fide offer from any party (other than Lessee) to purchase a new lease or an option to purchase a new lease covering all or any part of the lands or substances covered hereby, and if Lessor is willing to accept such offer, ("third party offer", hereunder) then Lessor shall promptly notify Lessee in writing of the name and address of the offeror, and all of the terms and conditions of such third party offer, including any lease or option bonus offered. Lessee shall have a period of Thirty (30) days after receipt of all such notice data in which to exercise the herein granted preferential right to purchase a new lease or option for a new lease from Lessor on a form comparable to the third party offer, or absent a specific form with the third party offer then on this lease form adjusted by Lessee to include the terms and conditions in the third party offer, by giving Lessor written notice of the exercise of such preferential right. Promptly thereafter, Lessee shall furnish to Lessor the new lease for execution, along with a time draft for any lease bonus included as a part of the third party offer, conditioned upon execution and delivery of the lease by Lessor and approval of title by Lessee, all in accordance with the terms of the draft. Whether or not Lessee exercises the preferential right granted hereunder, during the time this lease remains in effect, any new lease executed by Lessor pursuant to any third party offer shall be subordinate to this lease and shall not be construed as replacing or adding to Lessee's obligations hereunder. The preferential right to purchase a new lease granted to Lessee by this paragraph 18, shall terminate unless exercised prior to one week before the expiration of the period allowed for the absolute suspension of the power of alienation by the rule against perpetuities.

19. If this lease becomes forfeited, terminated or expires, the Lessee, or if the lease has been assigned, the Assignee is required to provide a document canceling the lease as of record, at no cost to the current landowner. If the Lessee or Assignee fails to cancel the lease, the current landowner may compel a cancellation pursuant to Section 15-304 of the General Obligations Law.

20. THIS IS A LEASE OF OIL AND GAS RIGHTS, NOT A SALE, CONTAINING TERMS THAT MAY BE NEGOTIATED BY YOU. YOU HAVE THE RIGHT TO CANCEL THIS LEASE WITHIN THREE BUSINESS DAYS AFTER EXECUTION OF THE LEASE BY NOTIFYING THE LESSEE THAT YOU HAVE CANCELED THIS CONTRACT. IN ORDER TO CANCEL THIS LEASE, YOU MUST EXECUTE A NOTICE OF CANCELLATION IN THE FORM PROVIDED BELOW, MAIL IT TO THE LESSEE AND REFUND ALL AMOUNTS PAID TO YOU BY THE LESSEE WITHIN THE THREE-DAY CANCELLATION PERIOD. THE MAILING MUST BE POSTMARKED WITHIN THE THREE-DAY CANCELLATION PERIOD TO BE EFFECTIVE.

**NOTICE OF CANCELLATION**

I/WE HEREBY CANCEL THIS LEASE.

DATED:

SIGNATURE(S):

THE PERSON PRESENTING THIS LEASE TO YOU IS ~~NOT~~ ☒ A MEMBER OF N.A.L.A.  
(name of organization) AND THEREFORE IS ~~NOT~~ ☒ SUBJECT TO A CODE OF CONDUCT. IF THE PERSON PRESENTING THIS LEASE TO YOU IS SUBJECT TO A CODE OF CONDUCT, A COPY OF THE CODE OF CONDUCT MUST BE PRESENTED TO YOU WITH THIS LEASE. IF APPLICABLE, THE CODE OF CONDUCT PROVIDES A DISPUTE RESOLUTION MECHANISM FOR ANY DISPUTE THAT YOU MAY HAVE REGARDING THE MANNER BY WHICH THIS LEASE WAS PRESENTED TO YOU. IF YOU HAVE ANY SUCH DISPUTE, YOU MAY INVOKE THE DISPUTE RESOLUTION MECHANISM OF THE CODE OF CONDUCT BY CONTACTING THE PERSON OR PERSONS DESIGNATED IN THE CODE OF CONDUCT. THE FAILURE OF THE LESSEE TO PAY ANY ROYALTIES TO YOU AS REQUIRED UNDER THE TERMS OF THE LEASE FOR A PERIOD OF FOUR CONSECUTIVE MONTHS OR MORE SHALL BE A DEFAULT UNLESS OTHERWISE PROVIDED BY LAW, AND WILL RESULT IN CANCELLATION OF THE LEASE APPLICABLE TO THE TARGET FORMATION OF THE WELL WITHIN THE SPACING UNIT, FOLLOWING WRITTEN NOTIFICATION TO THE LESSEE OF YOUR INTENT TO CANCEL AND SIXTY DAYS FOR THE LESSEE TO CURE THE DEFAULT. IF THE LESSEE HAS A BONA FIDE DISPUTE REGARDING THE GROUNDS FOR CANCELLATION, SUCH DISPUTE AND THE REASONS THEREFOR MUST BE PROVIDED TO YOU IN WRITING OR THE DEFAULT MUST BE CURED WITHIN SUCH SIXTY DAY PERIOD, OTHERWISE THE LEASE SHALL BE CANCELLED.

IN WITNESS WHEREOF, this instrument is executed on the date first above written,

WITNESS:

Robert Kennedy

William H. Owen  
(SS#, or Tax I.D.#)

(SS#, or Tax I.D.#)

(SS#, or Tax I.D.#)

BK 1378 PG 029 (SS#, or Tax I.D.#)

ACKNOWLEDGEMENT

STATE OF New York )

COUNTY OF ~~Onondaga~~

) ss:

On the ~~4~~ day of , in the year , before me, the undersigned, personally appeared , personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in the capacity(ies) and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

SUBSCRIBING WITNESS

STATE OF ~~New York~~

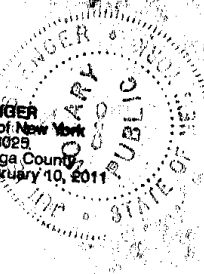
COUNTY OF ~~Onondaga~~

) ss:

On the 4<sup>th</sup> day of August , in the year 2008 , before me, the undersigned, personally appeared Robert J. Kennedy, the subscribing witness to the foregoing instrument, with whom I am personally acquainted, who, being by me duly sworn, did depose and say that he/she resides 2680 Shamrock Rd Skaneateles, NY 13152 ; that he/she/they know(s) William H. Owen to be the individual(s) described in and who executed the foregoing instrument; that said subscribing witness was present and saw said, William H. Owen execute the same; and that said witness at the same time subscribed his/her name(s) as a witness thereto.

*Julie A. Stenger*

JULIE A. STENGER  
Notary Public, State of New York  
No. 01575073028  
Qualified in Onondaga County  
Commission Expires February 10, 2011



Prepared by: Lenape Resources, Inc. Alexander, NY 14005

BR1378 PG030